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Lookheed Aircraft Corporation California Division Burbank, California Contract SP-1915

AUDITOR'S COMPRIES ON COSTS QUESTIONED

1. 1958 Overhead. The suditor questions the propriety of the smounts included in the contractor's proposal for engineering overhead, factory overhead and contract and administrative expanses for the year 1958. In the following susmary the overhead rates and security proposed by the contractor are shown in comperison with those sommidered by the maditor to be acceptable:

		Proposed		Auditor's Recommendation	
	lebor Hours	Rate Per Hour	Anount	Rate Per Bour	Amount
Engineering Pactory C & A Accepted Questioned	110,780 2,233 113,013	\$2.7655 3.9617 .8050	\$3 06,362 8, 8 45 90,975	\$2.7355 3.7791 .7169	\$303,039 6,437 81,119 \$392,595
Total					13,587
			\$406,182		\$406,182

a. Overhead rates recommended for acceptance were used in a recent negotistion under Air Force contract AFO4(606)4760 and were based on the contractor's statement of actual overhead expense for the year 1958, which included the factors of usage, or mass depreciation, and management incentive compensation. At the time of the negotistion referred to, and at the date of this report, final determination of overhead disallowances for the year 1958 had not been made. The factors of disallowance used in negotiating the rates were established by taking the same percentage of disallowance as was applicable to overhead expenses of the year 1957. The fallowing tabulation shows the computation of the rates proposed by the contractor and of those recommended by the satistor:





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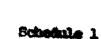
Engineering overhead:		Proposed by Contractor	Recommended Auditor	
STAT Gross Disull	rates Ovinces			
Net	Rate			
Pactory	Technolis			
Gross: Disall	rates Mances			
	rate			
*Cor	strector error	• 4		
C & A:				
Gross : Disallo	ates Minces			
Net	Aste			

b. Comparison of the elements above shows that the differences between the proposed rates and the suditor's recommended rates are largely due to the higher gross rates used by the contractor. As indicated in subparagraph a, the gross rates used in the suditor's computation are those resulting from overhead expenses actually incurred during the entire year 1958, as shown by the contracter's records.

2. Costs Questioned for Consideration by the Contracting Officer.

a. <u>Flight Test Bonns</u>. Included in the labor costs proposed by the contractor is the smount of \$51,112 for flight test bonns. Becords of the contractor show that the bonns payments were attributable to the following phases of work:

STAT STAT STAT	Type of Work Themse study Engineering flight test phi, 355 Flight test "C" equipment Flight test "B" equipment Themse 6 units Mod. 350 Nod. 358 Other modifications page F. T.	Engineering Work Authorisation 1084 7517 7522 7528 7529 7532 7539 7544 7565 7568	
	Total.		



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(1) For the same reasons as were fully explained in Schedule 8 of the auditor's report on Contract SP-1913, the suditor does not have sufficient knowledge regarding the tests conducted to determine the acceptability of the costs; however, he has examined the flight diagrams and charts to determine that the bomus payments were computed in the prescribed manner.

b. Aggomodation Purchases and Additional Ship Parts.

(1) The contractor's proposal includes the amount of \$20,761 for meterial cost classified as accommodation purchases and the amount of \$20,713 for meterials shown to have been delivered as additional ship parts or used in the fabrication and assumbly thereof. The auditor has made tests which show that the cost value of items described in shipping documents and forms ID 250 contained in the communication's file will asport the amounts stated above and the documents mentioned indicate that the items were delivered to the customer. The auditor has made no determination as to the validity of the customer's requests to furnish the items or of the customer's receipts therefor. The amounts are referred for consideration of the Contracting Officer for the same reason as was fully explained in Schedule 10 of the suditor's report on Contract EP-1913.

(2) Recommendation.

To assure that all items charged to the contracts have been delivered to the customer, the forms ND 290 received by the mustomer should be compared with those combained in the contractor's files which show the valuations of the items as verified by the auditor's tests. Validity of the customer's receipts for the property should also be established.